

Message Text

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CIEP-01 DODE-00 EB-07 FPC-01 H-02 INR-07 INT-05 L-03

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TO SECSTATE WASHDC 4045

INFO AMCONSUL DHAHRAN

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E.O. 11652: N/A

TAGS: ECRE, ENRG, BEXP, SA

SUBJECT: JUBAIL PETROCHEMICAL COMPLEXES

REFS (A) STATE 037074, (B) DHAHRAN 294 (NOTAL), (C) DHAHRAN
A-02 (NOTAL)

1. EMBASSY HEREBY TRANSMITS DHAHRAN 294 WHICH SENT FOR
CONCURRENCE. EMBASSY COMMENTS ON JUBAIL COMPLEXES FOLLOW
AS SEPTEL.

2. SUMMARY: PETROMIN-PECTEN, KNOWN LOCALLY AS TECTEN
ARABIA, LTD., IS WHOLLY-OWNED SHELL INC. SUBSIDIARY.
PLANS FOR THREE MAJOR PETROCHEMICAL PLANTS AS PART OF
NEW JUBAIL INDUSTRIAL COMPLEX ARE STILL IN THE NEGOTIATION
STAGE. PROGRESS IS SLOW PARTLY OWING TO FACT NEW MINISTRY
OF INDUSTRY AND ELECTRICITY (MIE) IS NOT FULLY STAFFED
AND NEW MINISTER STILL FEELING HIS WAY. CONGEN UNDERSTANDS
THAT FOREIGN COMPANIES NEGOTIATING FOR JUBAIL COMPLEX CONTRACTS
ARE RELUCTANT TO AGREE TO SAG TERMS WITHOUT INDUCEMENTS.
SAG MAY BE HESITANT TO MAKE CONCESSIONS, APPARENTLY

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FEARING THAT ECONOMIC FEASIBILITY OF PETROCHEMICAL PROJECTS

MAY BE UNDERMINED. END SUMMARY.

3. PECTEN PETROCHEMICAL COMPANY (DISCUSSED PARA 2 OF REFTEL A), KNOWN LOCALLY AS PECTEN ARABIA, LIMITED, HAS HEAD OFFICES IN HOUSTON AND IS WHOLLY-OWNED SUBSIDIARY OF SHELL INC., USA. MR. R.J. SWAFFORD, PECTEN VICE PRESIDENT RESIDENT IN HOUSTON, IS REPRESENTATIVE MOST OFTEN SEEN IN SAUDI ARABIA. PECTEN HAS NOMINAL OFFICE IN RIYADH, BUT BRITISH SHELL REPRESENTATIVE COVERS FOR PECTEN WHEN ITS EXECUTIVES ARE NOT VISITING KINGDOM.

4. WHILE IT MAY BE CORRECT TO SAY THAT "HUNDREDS OF PROPOSALS" FOR THREE PLANNED PETROCHEMICAL COMPLEXES (REFTEL A) HAVE BEEN MADE TO SAG, PERHAPS NO MORE THAN A DOZEN CAN BE DESCRIBED AS SERIOUS CONTENDERS. RESIDENT VICE PRESIDENT BECHTEL OBSERVED TO CONGENOFF THAT YOU CAN STAND ON ANY STREET CORNER IN AL KHOBAR AND GET A DIFFERENT RUMOR AS TO WHO IS DOING A JUBAIL PROJECT.

5. DISCUSSIONS WITH KNOWLEDGEABLE ARAMCO STAFF MEMBERS, WHO FOLLOW JUBAIL DEVELOPMENTS CLOSELY, AND CONVERSATIONS WHICH CONGENOFF HAD IN RIYADH, PROVIDE SOME INSIGHT CONCERNING STATUS OF PETROCHEMICAL PROJECTS. RESPONSIBILITY FOR NEGOTIATION OF JUBAIL PROJECT WAS COMPLETELY IN HANDS OF PETROMIN UNTIL FORMATION OF MIE IN OCTOBER 1975. FAILURE OF PETROMIN TO MOVE RAPIDLY IN NEGOTIATION OF PETROCHEMICAL PROJECTS LED TO CREATION OF NEW MINISTRY, WHOSE CHIEFTAIN, GHAZI AL-GHOSAIBI, HAS LITTLE BACKGROUND IN PETROLEUM MATTERS. PETROMIN OFFICIALS HAVE BEEN BRIEFING NEW MINISTER INTENSELY REGARDING STATUS OF ALL PROJECTS AT PLANNED YENBO AND JUBAIL INDUSTRIAL COMPLEXES. AT SAME TIME, CONGENOFF UNDERSTANDS THAT AL-GHOSAIBI HAS FORMED TASK FORCE WITHIN MIE WHICH WILL BE RESPONSIBLE FOR INDUSTRIAL PROJECTS IN BOTH COMPLEXES. DEPUTY MINISTER DR. TAIBA WILL HAVE OVERALL DIRECTION OF TASK FORCE WHILE OPERATIONAL RESPONSIBILITY WILL BE IN HANDS OF ABDUL AZIZ ZAMIL, NEW DEPUTY CHIEF OF INDUSTRIAL STUDIES AND DEVELOPMENT CENTER. ZAMIL IS GIVEN HIGH MARKS AS EFFECTIVE AND THOROUGH LEADER BY THOSE WHO HAVE WORKED WITH HIM.

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6. AS AL-GHOSAIBI SELECTS HIS STAFF AND BECOMES THOROUGHLY ACQUAINTED WITH RESPONSIBILITIES OF NEW MINISTRY, HE SEEMS TO HAVE SHIED AWAY FROM HOLDING SUBSTANTIVE DISCUSSIONS WITH FOREIGN COMPANIES. RESIDENT EXXON REPRESENTATIVE TOLD CONGENOFF THAT WHEN HE ASKED FOR APPOINTMENT DURING LATE JANUARY FOR VISITING EXXON EXECUTIVES, AL-GHOSAIBI POLITELY, BUT FIRMLY DECLINED TO SEE THE VISITORS ON GROUNDS THAT HE WAS NOT WELL ENOUGH INFORMED TO TALK SUBSTANTIVELY. MARCONA, WHICH

HEADS GROUP THAT HOLDS LEAD POSITION TO DO JUBAIL STEEL PROJECT, ALSO REPORTS THAT ITS PROJECT HAS NOT MOVED FORWARD ONE INCH SINCE ESTABLISHMENT OF MIE. MARCONA DOES NOT EXPECT MUCH FORWARD MOVEMENT UNTIL MEI IS ABLE TO ASSEMBLE STAFF.

7. PETROMIN REPRESENTATIVE IN EASTERN PROVINCE, JAMIL KHAYAT, REVIEWED JUBAIL COMPLEX WITH CONGENOFF AT END OF FEBRUARY. HE OBSERVED THAT HIS ORGANIZATION IS WORRIED THAT MIE HAS NOT MOVED FORWARD WITH THE MAJOR INDUSTRIAL PROJECTS PLACED UNDER ITS CONTROL. WHILE KHAYAT'S VIEWS MAY BE SOMEWHAT BIASED BECAUSE OF UNHAPPINESS ABOUT JUBAIL PETROCHEMICAL COMPLEX BEING REMOVED FROM PETROMIN CONTROL, KHAYAT COMMENTED THAT PETROMIN WAS THREE OR FOUR MONTHS AWAY FROM REACHING AN AGREEMENT WITH PECTEN (SEE ABOVE) BEFORE RESPONSIBILITY FOR PETROCHEMICAL COMPLEXES WAS TRANSFERRED TO MIE. KHAYAT ADDED THAT THERE REMAIN DISPUTED AREAS OF RESPONSIBILITY BETWEEN PETROMIN AND MIE THAT MUST BE SQUARED AWAY. TWO MOST DIFFICULT AREAS OF DISAGREEMENT CONCERN TWO PLANTS AT JUBAIL -- THE LUBRICATING OIL REFINERY AND THE PETROLEUM-BASED ANIMAL FEED PROTEIN PLANT -- WHICH MIE INSISTS ARE PRIMARILY PETROCHEMICAL PROJECTS AND, THEREFORE, FALL UNDER ITS RESPONSIBILITY.

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8. CONGEN COMMENT: DECEMBER 1, 1975 ISSUE OF PETROLEUM INTELLIGENCE WEEKLY REPORTED SAUDI OFFICIALS SAYING "FOREIGN FIRMS PARTNERED BY PETROMIN OR OTHERWISE INVOLVED IN PLANNED PROJECTS HOPEFULLY SHOULD FEEL NO MORE THAN A HICCUP OR TWO DURING TRANSFER ..." FROM PETROMIN TO MIE. CLEARLY, THERE HAS BEEN MORE THAN A HICCUP. PERHAPS SOME OF MIE'S LETHARGY IS TRACEABLE TO QUALITY AND CONTENT OF PROPOSALS RECEIVED FROM INTERESTED FOREIGN COMPANIES. CONGENOFF UNDERSTANDS THAT FOREIGN COMPANIES ARE ASKING FOR INCENTIVES TO DO PROJECTS WHICH GOVERNMENT, UNTIL NOW, HAS BEEN RELUCTANT TO GRANT BECAUSE OF IMPACT THEY WILL HAVE ON ECONOMICS OF PETROCHEMICAL PROJECTS. LIST OF INCENTIVES, WHICH COULD UNDERMINE ECONOMIC JUSTIFICATION OF JUBAIL PETROCHEMICAL PROJECTS, PROBABLY INCLUDE SOME OF FOLLOWING:

A. PRICE OF PETROMIN CRUDE SUPPLIED TO JOINT VENTURES (IT HAS ALSO BEEN SUGGESTED THAT PROSPECTIVE FOREIGN PARTNERS MAY BE PERMITTED TO BUY, ON OWN ACCOUNT, SAUDI ARABIAN CRUDE AT BELOW REPEAT BELOW OPEC PRICES).

B. PRICE OF PETROMIN NATURAL GAS SUPPLIED TO JOINT VENTURE.

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C. AMOUNT OF EQUITY TO BE PROVIDED BY FOREIGN PARTNER.

D. RATES, TARIFFS, AND FEES LEVIED ON JOINT VENTURE FOR USE OF JUBAIL INFRASTRUCTURE AND SERVICES SUCH AS PORT, RAILROAD AND PUBLIC UTILITIES.

E. TERMS OF CONTRACT SIGNED WITH FOREIGN PARTNER TO HANDLE FOREIGN MARKETING OF PLANT OUTPUT.

F. TECHNOLOGY AND MANAGEMENT SERVICES CONTRACT TERMS.

THUS, GOVERNMENT MUST JUDGE IF "COST" OF INCENTIVES WILL CAUSE JOINT VENTURE TO BECOME A "PRESTIGE PROJECT" RATHER THAN ONE WHICH IS ECONOMICALLY VIABLE IN MARKET TERMS.

9. UNTIL NOW, GOVERNMENT HAS BEEN PRUDENT IN MOVING AHEAD ON JUBAIL PROJECTS BECAUSE IT RECOGNIZES NEED FOR (A) FOREIGN TECHNOLOGICAL EXPERTISE, AND (B) ESTABLISHED MARKETING ORGANIZATION. ALTHOUGH COMPANIES LIKE DOW, SHELL AND CELANESE HAVE PUT FORWARD PROPOSALS, THEY UNDOUBTEDLY HAVE DEMANDED SUBSIDIZATION IN FORM OF FEEDSTOCK PRICING -- PETROLEUM, NATURAL GAS AND RESIDUAL REFINERY PRODUCTS.

10. AS CONGEN REPORTED IN REF (C), THERE IS ALREADY SOME MAJOR QUESTIONING WITHIN ROYAL COMMISSION REGARDING COST/BENEFIT RATIO OF JUBAIL AND YENBO PROJECTS. WHILE IT CAN BE ARGUED THAT ROYAL COMMISSION IS ONLY CONCERNED WITH

PUBLIC SECTOR INFRASTRUCTURE -- PORTS, ELECTRIC POWER, WATER SUPPLY, RAILROAD -- OF THE TWO PLANNED INDUSTRIAL CENTERS, IT IS ALSO TRUE THAT COMPOSITION OF ROYAL COMMISSION, WHICH INCLUDES MANY OF THE KEY DECISION MAKERS INVOLVED IN THE GOVERNMENT'S INDUSTRIAL DEVELOPMENT PROGRAM, MAKES IT LIKELY THAT ALL ASPECTS OF THE YENBO AND JUBAIL COMPLEXES COME UNDER CONSIDERATION DURING ITS DELIBERATIONS. ESCALATING PROJECT COSTS MUST SURELY FIGURE LARGE IN SUCH DISCUSSIONS.

11. BEYOND INFO CONTAINED IN REPAIR, CONGEN IS AWARE THAT ARAMCO'S PARTICIPATION, THE NATURAL GAS-GATHERING PROJECT, IS BECOMING VERY COSTLY. SENIOR FINANCE OFFICER IN ARAMCO'S PROJECT MANAGEMENT DEPARTMENT, WHO IS WORKING DIRECTLY ON GAS-GATHERING PROJECT, EXPLANINED RECENTLY THAT IT MAY COST US \$ THREE TO FIVE BILLION MORE THAN LIMITED OFFICIAL USE

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ORIGINAL ESTIMATE. MANY OF INCREASED COSTS ARISE FROM SPEED WITH WHICH PROJECT IS BEING IMPLEMENTED AND, CONSEQUENTLY, HASTE IN NEGOTIATING CONTRACTS. IRONY OF SITUATION, FINANCE OFFICER COMMENTED, IS THAT BOTTLENECKS SUCH AS DAMMAN PORT CONGESTION, MAY WELL LEAD TO COMPLETION DATE FOR PROJECT BEING PUSHED BACK TO 1980 OR 1981 RATHER THAN 1979 AS PLANNED.
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